	The HCSNA will develop a contract compliance manual as recommended by the audit. The HCSNA concurs with the audit findings that due to limited number of staff, the department is unable to maintain regular site visits, to the DC Alliance facilities, to monitor contract compliance issues.

Process	Revenue Generation and Collection
Title	Oversight of Office of Tax and Revenue (OTR) Lockbox Arrangement
Observation	The OTR has a lockbox contract with Wachovia Bank to collect and process tax returns and payments relating to individual income tax, business income tax, sales and use tax, and personal and real property taxes. However, the OTR neither requests nor reviews Wachovia's "Treasury Services Division, Report on Controls Placed in Operation" report relating to the lockbox procedures. This report is in accordance with Statements on Auditing Standards No. 70, "Service Organizations"(SAS 70 Report). Since the procedures performed by the lockbox contractor are essentially an extension of the District's internal control system over tax receipts, the SAS 70 Report should be obtained and reviewed to help ensure all tax receipts are processed in accordance with the terms of the District's agreement with the lockbox contractor, and that controls are in place and functioning to safeguard District revenue and to report the lockbox transactions accurately and completely.
Recommendation	We recommend that OTR request and review SAS 70 reports from Wachovia on an annual basis to determine if the controls over Wachovia lockbox processing were suitably designed to achieve specified controls objectives, whether they had been placed in operation as of a specified date, and whether the controls that were tested were operating with sufficient effectiveness to provide reasonable, but not absolute, assurance that the related controls objectives were achieved during the period specified. Furthermore, OTR should follow up with Wachovia regarding any findings noted in the report, and evaluate the risk to the District resulting from the lockbox process.
Management's Response	OTR concurs. The Returns Processing Administration, within OTR, has developed several internal procedures in order to monitor the lockbox operations performed by Wachovia Bank. OTR employees have regular communication with Wachovia related to updates within the District's tax return process. There are monthly conference calls to discuss issues, as well as annual site visits to the lockbox processing center to observe operations. Unscheduled visits are also executed by OTR personnel to observe lockbox operations. OTR technicians compare transmitted data from Wachovia to the

	actual tax returns for accuracy. As errors are observed, an error log is maintained and provided to the Lockbox Program Manager for resolution with appropriate personnel. OTR agrees that a review of the controls document related to the Wachovia lockbox processing system, as performed by an independent auditors, would be useful in order to insure that those controls that affect OTR are suitably designed and are in operation. OTR agrees that it should follow up with Wachovia on any findings noted in the report, and evaluate the risk to the District related to the lockbox process.

Process	Revenue Generation and Collection
Title	Accuracy of Real Property Tax Reserve Calculation
Observation	OTR currently calculates a 100% real property tax reserve for uncollected amounts that are outstanding for two or more years prior to the current fiscal year. Based on an analysis prepared by OTR that compares FY 2003 and FY 2004 receivables, it was apparent that OTR continues to collect on prior year tax receivables and, therefore, the real property tax reserve estimate of 100% may not be entirely justified.
Recommendation	OTR developed the current real property tax reserve calculation prior to the implementation of GASB Statement No. 34. For purposes of the District's fund financial statements, the current reserve calculation is reasonable; however for the District's government-wide financial statements, a portion of the prior year receivables deemed to be ultimately collectible should be reflected as current year revenue and as net assets. The amount deemed collectible should take into consideration the results of the annual tax sales, the amounts that may be collected upon future sale of the property, and other mitigating factors, as appropriate. Amounts deemed totally uncollectible should be written off the tax receivable ledgers. An annual re-estimate of the amounts deemed uncollectible should be performed and appropriate adjustments made for financial statement purposes.
Management's Response	OTR concurs. OTR has not revised its estimate methodology for the real property tax reserve since the implementation of GASB Statement No. 34, but will periodically review its reserve methodology in the future.

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Process	Human Resources Process
Title	Metropolitan Police Department (MPD) Payroll Process Controls
Observation	The TACIS system currently allows employees of the MPD payroll department other than the certified timekeeper to lock an employee time and attendance record. During our FY 2004 audit tests, we noted that, three of the time and attendance sheets selected for testing were not certified (locked) by the certified timekeeper, but rather by the MPD payroll staff who do not have access to supporting documentation to verify the accuracy of hours worked and authorizations for overtime and leave. Combined with the current lack of segregation of duties between payroll data inputting and time and attendance certifying, MPD is at risk of not preventing or detecting inaccurate or improper time and attendance reporting.
Recommendation	MPD should revise its policies to prohibit anyone other than a certified timekeeper or other supervisory official with direct knowledge of the employee's attendance and working hours to approve time and attendance records. Additionally, the employee approving or certifying the time and attendance in TACIS should not be able to input time and attendance data into TACIS.
Management's Response	Management concurs. In the absence of assigned time and attendance personnel, the Payroll Operations Office does act as the final certification for all units of the agency. The Payroll Operations Office will be diligent in its efforts to ensure that all time and attendance personnel adhere to the guidelines outlined by the office, the agency, and the District. As time and attendance deficiencies are identified, time and attendance personnel are required to attend additional training. Subsequent deficiencies identified after additional training are subject to have their certifications revoked.

Process	Payroll and Personnel
Title	Unified Payroll and Personnel System (UPPS) Application Controls
Observation	UPPS application security needs improvement. Specifically: a) UPPS users are not provided application security training. b) There are no documented procedures for UPPS application security.

Other Observations and Recommendations on Internal Control and Financial Operations

Recommendation	We recommend that: a) The Director of Enterprise Operations should create a policy to require all users of the UPPS system to receive security awareness training. b) We recommend that management establish and document standard procedures for UPPS security. Comprehensive and up-to-date UPPS security procedures will help the security administrator perform his / her duties in an efficient and effective manner. The security administrator will then be able to correct errors, answer questions, and resolve problems regarding UPPS security.
Management's Response	Following are management responses to each of the above observations: a) Management concurs. We are currently developing security training for the users of the UPPS system. b) Management concurs with the need for UPPS Application Security Documentation and has assigned staff to prepare such. The target date for review of draft documentation is April 15, 2005, while the target date for final publication is May 20, 2005.

Process	Information Technology General Controls at the ODC1 and ODC2 Data Centers
Title	Backup and Recovery
Observation	Backup and recovery processes need improvement. Specifically: a) Formal Backup policies and procedures have not been developed and implemented at the ODC-1 and ODC-2 data centers. b) The University of the District of Columbia (UDC) and DOES backup tapes are not sent to an offsite location by the ODC-1 data center.
Recommendation	We recommend: a) Senior Management should promptly develop, approve, implement and enforce policies and procedures for data backup and recovery at ODC-1 and ODC-2. b) UDC and DOES should negotiate and sign a service level agreement with the ODC 1 data center to have the backup tapes sent to offsite storage.

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